Readjustments in the Retail Grocery Business

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WITH the formation of the United States Food Administration, it was generally believed that a general reform of the methods of distributing food would ensue. The wish was father to the thought. But the very things which the Food Administration had to do made reform impossible. It was necessary to secure the full coöperation of the wholesale and retail distributors in every step undertaken; and that could not have been done had the Food Administration sought to force reforms in their methods. The best that could be hoped for was that excessive profiteering would be prevented; and this task the Food Administration accomplished splendidly. Even in the fixing of fair prices, however, allowances had to be made sufficiently broad to protect the inept and shiftless distributors, so as to keep the whole machinery in smooth operation for the great purpose in view.

And so we find ourselves, at the dissolution of the Food Administration, with the problems of distribution just where they were before; rather worse, if anything, because of the precedents set in the matter of "fair prices" and the abandonment of free delivery service. Nevertheless the problem of the ever rising cost of food is one which will not down, and its solution one of those which must be found during the period of reconstruction. The world has a debt of $200,000,000,000 to liquidate. All business is seeking methods which will eliminate waste. And those practices in the distribution of food which cost money yet make no one a profit must be gotten rid of.

The most important raw material which enters into manufacture is the food of the laborer. Nearly half of his wages go for the purchase of food. The bill for inferior food and for food which costs more than it should is handed to the manufacturer for liquidation. The problem roots too deeply to be neglected by our business interests.

Excessive Cost of Blind Competition

There are 375,000 retail grocers in the United States, one for every 293 people. In the larger cities this over-development is greater, and there is a grocer for every forty to fifty families. These small groups of families pay for the rent, light, heat, delivery service, losses from bad debts,—for all the usual expenses of running the business,—and furnish a living for the grocer and his family and a profit on his invested capital.

The high cost of food is largely connected with the smallness of these units and their relatively high operating expense. Theoretically, with four or five grocers in the field for every one who could operate economically, competition should promptly bring down prices and eliminate the unfit units. But such is not the case. Faced with the choice of developing a small business at a high margin of profit—of protecting his living in what seems to be a sure way—and the bolder course of going after business by underselling competitors and absorbing their trade, the grocer has chosen the former method. In so doing, he has been compelled to develop competition along new and wholly vicious lines. This competition has taken the form of "free delivery," loose credits, telephone service, soliciting orders, and other practices, all of which add to the cost of doing business and force an ever-rising margin of gross profit to protect the business. Until within recent years, the retail grocer met all his risks, losses and troubles by charging enough to take care of all such items. The consumer paid for all business mistakes. These were the golden days of the business, largely responsible for the development of the great excess of units therein.

But in the country districts, the mail order houses capitalized the opportunity for taking away the grocer's trade; and in the cities, the chain store entered the field. Both were highly successful; and their success is growing. Yet neither have found even an approximate solution of the consumer's problem, the ways of business being those of unenlightened selfishness.

Analysis of Costs of Competition

The adoption of the "credit" system has been an unqualified curse. The average grocer has neither liquid capital enough nor bank credit to finance his buying operations. He has no license

to assume the functions of a free bank with his customers. When the customer—who has been actively demanding that her dollar be accorded its full purchasing power—accepts credit at the hands of the grocer, it is precisely the same as if she borrowed a dollar of the grocer's working capital to spend in his store. By this operation she destroys the cash purchasing power of her own and her grocer's dollar. Neither gets action at the right time.

It is not in the losses from bad debts, the bookkeeping cost, the billing and collecting that credit exercises its most baleful effect. The grocer with ready cash can buy, on an average, 10 per cent cheaper in the open market than his rival who is in the limited credit class; and this opportunity is absolutely destroyed by the credit system, except in those rare cases in which the grocer has ample funds for his business opportunities. The grocer who extends credit not only becomes a "credit buyer," but a buyer of the most undesirable class, a hand-to-mouth buyer who requires constant calls on the part of salesman and collector, constant small deliveries, a great detail of bookkeeping and close watching by the credit department of the wholesaler. He is the poorest buyer in the whole list—and his customers pay the Scot, for the bill for all this riot of inefficiency is included in the price charged the grocer by the wholesaler.

The backbone of the retail grocery business is the cash buyer. The grocer who extends credit must charge higher prices than the cash grocer. It is true that he gets business by using credit; but it is equally true that he gets undesirable business and drives away his best customers. He trades the substance for the shadow. That credit is not necessary is sufficiently proven by the great success of the mail order houses, the chain stores and the independent grocers who have changed to a cash basis.

"Free delivery," except in the case of those stores which handle an "exclusive" trade and can therefore charge high prices, is without any standing in the court of economics of the reconstruction period. It is ridden to death practically without exception.

The net profits of the grocery business are small. Four per cent on the total business is regarded as a very satisfactory profit. It is high for a business which is actively seeking extension. Even were it possible for the efficient store to hold its delivery cost to the 3 per cent found by Harvard as "efficient" for delivery cost,

this would require a charge of (4 per cent plus 3 per cent) 7 per cent of the total business to cover delivery cost and net profit, a serious and unnecessary handicap for an actively competitive business. Were the expense of the delivery (as above) charged against the goods delivered, a business in which half of the goods were delivered and half carried home by customers would yield 87½ per cent of its *net* profit from the "carry" trade and but 12½ per cent from the delivery trade. In the *average* store, the charging of "free delivery" cost against goods delivered invariably shows that the delivery system is an intolerable burden on the profits of the business; never a contributor, always a thief. A five-cent charge for delivery, in all but exceptional cases, becomes almost instantly, through its direct and indirect effects, a source of income and saving sufficient to make the delivery system self-sustaining, so that the goods delivered yield their just share of the net profits of the business. And this small charge is not resented by the customer provided a reduction in price of some of the merchandise is made so as to refund to the customers the allowance in the mark up to cover the cost of the former free delivery system.

Solicitation of orders, sending out goods on inspection, and other abuses which have crept into the grocery system, all cost money and all make it necessary for the retailer to increase his selling price to cover these unnecessary costs.

THE GROCER AS A FREE BANK

Commercial agencies tell us that 90 per cent of our merchants *over-buy*. But the very essence of successful business is the running of it on *minimums*. In no business is this more important than in the case of the retail grocer. And in no other business is the principle so completely ignored.

Successful retailing of groceries requires a speeding up of the stockturn or turnover. The Harvard analysis finds that a group of efficient grocers made twelve turnovers a year, once a month. But a turnover to be a sound business turnover must be complete. If the turnover is monthly, whatever remains on the shelves at the end of the month is a burden to the business. It is potential profit in slow moving or dead stock which pays no bills and gets the grocer nowhere unless it be towards the sheriff's office.

The true theory is that every dollar invested in the business should make its share of the expense and net profit of that business within the turnover period of the business: that dollars which do are profit makers and dollars which do not are profit takers. What the business needs is not a general turnover each month of an amount of stock equal to the year's average carried, but a particular turnover of everything within its proper turnover period. Each dollar must pay its way and earn its 4 per cent or 5 per cent a month or it has failed in its relations to the general business. In other words, the grocer who is striving for twelve turnovers a year and who buys any article in quantities for more than a month's supply, is not acting as a retail grocer at all; he has strayed beyond the realms of his own business.

As a matter of fact, the grocer too often buys for his shelves, his storage, his pride, his hope—for anything in the world except his turnover. And when he lays in a supply of canned goods, or fruits, anything in fact which reaches beyond the requirements of his turnover, he is simply acting as free banker for the food manufacturer and the wholesaler. And the policy of the wholesale business is to saddle its customers with these burdens which should be carried, in large part, by the borrowing power of the foods as collateral, reinforced by trade acceptances.

The arguments used by the wholesaler to shift upon the retailer these burdens which he should not assume are as old as the hills and apparently as safe and trustworthy. Indeed, it is a curious commentary on the wholesale business that it has not worked out a plan whereby it can *sell and serve* those outlets on which its own life depends so absolutely.

THE ILLS OF COMPETITION AND ENLIGHTENED COMPETITION

The wholesaler has laid unnecessary burdens on the retailer; his methods of competition have not been protective but destructive. His policy has been to deceive rather than to serve; to take all he can get and give as little as he must. He has developed his own business along unsound lines. The retailer, saddled with burdens from which he should be free, not understanding the fundamentals of his business nor its legitimate methods of finance, has sought to extend his trade, not by serving the best interests of his customers, but by fooling them into believing that he was

giving them for nothing services for which they have had to pay at ruinous rates. Neither the wholesaler nor the retailer has sufficiently considered the true interests of the consumer, nor sought to develop those services which ordinary enlightened selfishness dictate as the real foundations of business. The wholesaler has lost sight of his obligation to the retailer; the retailer has failed to appreciate his obligation to the consumer. Instead of "giving to get," both have emphasized, in a self-destructive and unintelligent way, their single desire and purpose to "get."

The inefficiency shown in the average grocery store is almost appalling. It is not departmentalized in its arrangement of goods; it has no system to minimize labor in handling, no system of stock-accounting; its bookkeeping is crude and general in character, furnishing at best general statistical information where particular information is imperatively needed. It fails to make use of those agencies for advertising, display and selling which have such a marked effect in lowering operating expense. It is operated on guess-work from garret to cellar. The average grocer cannot even approximate the cost of operating the various parts of his business, nor tell which is making him a profit and which netting a loss. The crying need of the business is a clear-cut, definite *system* as nearly self-operating as it is humanly possible to make it.

It is impossible to operate the small grocery units of today except at a high margin over actual costs and a ruinous cost to the consumer due to causes already discussed. It will be necessary to rid the field of a majority of its present units if prices are to reach their proper level.

The cure for the evils of blind competition is enlightened competition. The store which today is doing a business of $20,000 can cut its operating expense in half by trebling its business. It can, by abandoning credit and free delivery, by a judicious use of its resources and a development of banking credits, and by a thorough mastering of the principles of its turnover, put itself into the most desirable buying class, and buy 10 per cent cheaper than its inefficient rival. It can develop a self-supporting delivery system; it can make a sane use of the telephone; it can reorganize the interior system of doing business; and it can compete successfully with its most dangerous rival, the chain store, in the matter

of prices while retaining its "store personality" and giving the women those services which they require and to which they are entitled.

But to do this, the grocer must wholly abandon the evil practices of the past and devote a part of his time and brain power to considering the wants and requirements of the consumer. To develop volume of business the grocer must develop to its limit real service to the consumer. And the first thing he must do is to get a grip on the facts of the business, definitely abandon the old plan of guessing, and run the business by such rules as the facts indicate. There must be a complete change of the prices charged, not always down, for the facts of the business will not indicate a universal lowering of prices, but decidedly down on those articles the price of which is always highly competitive. For the first service demanded by the women today is that of lowering the cost of food.

THE ECLECTIC SYSTEM

It is probable that in the competition of the future, the old doctrine that "honesty is the best policy" will find its way into the systems of the mail order house and the chain store. Certainly it will in those localities where the independent grocer has courage and intelligence. In this event, the independent grocer's advantage as a competitor for business will be even greater than it is today. But there are lessons for him in the systems of the mail order house and the chain store which it is well to take to heart. Both systems have made use of their study of the habits of buyers; both have avoided business pitfalls which the average grocer still finds in his path.

The self-serve store, with its automatic salesmanship, also carries its lessons. While it is of limited application, the principle of saving the time and labor of selling by allowing the buyer to do a part, if not all, of the work, is well worth incorporating in most of the groceries of today, not as a compulsory self-serve, but with such modifications as make it a privilege instead of a burden to the women.

Of course the system will vary with the locality and character of the trade; perhaps to a certain extent with the individual grocer. But the system which will survive, which will absorb the business

of its competitors and build a sound economic unit from the wreckage of those units which are incapable of justification, will departmentalize the store, its bookkeeping and stock-accounting; will buy for its turnover; will, in most cases, furnish a five cent delivery system, routed and scheduled for a single delivery a day; will pay its good clerks a bonus on extra business and incontinently discharge its inefficient clerks; will extend every service and courtesy consistent with low prices and reasonable profits, and avoid whatever tends to disturb its position in its community as the store which gives more for a dollar in goods and service than any of its rivals.